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Message Text

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ACTION NEA-12

INFO OCT-01 EUR-25 ADP-00 CIAE-00 DODE-00 PM-09 H-02

INR-10 L-03 NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SS-15

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TRSE-00 RSR-01 /144 W
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TO SECSTATE WASHDC 2083
DIA WASHDC
INFO AMEMBASSY AMMAN
AMCONSUL DHAHRAN
AMEMBASSY LONDON
AMEMBASSSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY MOSCOW
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TELAVIV
USMISSION UN
USCINCEUR

C O N F I D E N T I A L BEIRUT 5413

DEPT PASS CAIRO

EO 11652: GDS
TAGS: EGEN LE SY
SUBJECT: ECONOMIC IMPACT OF CURRENT DISTURBANCES

SUMMARY: ECONOMIC ACTIVITY AT VIRTUAL STANDSTILL SINCE MAY 2 BUT SHOULD RETURN NEAR NORMAL QUICKLY IF CALM RETURNS THIS WEEK. ESSENTIAL SERVICES AND GOODS CONTINUE TO BE SUPPLIED ALTHOUGH DISTRIBUTION SLOWDOWN HAS CAUSED SOME MINOR AND TEMPORARY SHORTAGES SOME GOODS. LONGER RANGE OUTLOOK UNCLEAR BUT IT CERTAINLY POSSIBLE THAT
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THERE WILL BE A LACK OF CONFIDENCE IN THE FUTURE STABILITY OF LEBANON WHICH WILL HAVE ADVERSE EFFECTS IN SUCH AREAS AS TOURISM, BANKING, REGIONAL FOREIGN BUSINESS REPRESENTATION, FOREIGN INVESTMENT, INDUSTRIAL DEVELOPMENT, CONSTRUCTIION AND FOREIGN TRADE. PROGRESS IN THESE AREAS HAS ACCOUNTED FOR THE REMARKABLE RELATIVE LEVEL OF THE ECONOMY. HOWEVER IN ADDITION TO LEBANONS PRIVILEGED POSITION AS A REGIONAL COMMUNICATIONS CENTER AND THE COMMITMENT TO AN OPEN ECONOMY, ANOTHER PREREQUISITE TO ECONOMIC PROGRESS HAS BEEN THE CONVICTION THAT LEBANON COULD SOME HOW REMAIN INSULATED FROM THE HARMFUL EFFECTS OF THE ARAB ISRAELI CONFLICT. IT IS PRECISELY THIS BASIC CONVICTION THAT MAY NOW BE OPEN TO QUESTION. END SUMMARY.

1. SHORT TERM:

COMMERCE, INDUSTRY, BANKING AND TRANSPORTATION AT VIRTUAL STANDSTILL FROM MAY 2 TO DATE DUE TO FIGHTING CURFEW AND FALSE PEACE OF THREE DAY HOLIDAY WEEKEND.

PUBLIC UTILITIES HAVE OPERATED NORMALLY THROUGHOUT BUT AIRPORT CLOSED MOST OF THIS WEEK (IT IS STILL CLOSED) AND PORT OPERATED WELL BELOW NORMAL UNTIL MAY 10, WHEN DOCKERS ORDERED BACK TO WORK UNDER THREAT OF DISCIPLINARY ACTION. SHIP BACKLOG HAD REACHED ALMOST 40, CAUSING EUROPEAN SHIPPING CONFERENCES TO INCREASE CONGESTION SURCHARGES BY AS MUCH AS 40 PERCENT, BUT SHIP CONGESTION REPORTED CLEARING TODAY.

COUNTRY APPEARS HAVE AMPLE SUPPLIES OF ESSENTIAL FOODS AND FUELS. CONSUMERS OUTSIDE DANGER AREAS ABLE SUPPLY BASIC NEEDS BUT THERE TEMPORARY LOCAL SHORTAGES SOME ITEMS (FRESH FOODS, SUGAR, CIGARETTES, NEWSPRINT) DUE TO SLOWDOWN OF DISTRIBUTION SYSTEM. MEAT AND VEGTABLE PRICES SUBSTANTIALLY HIGHER THIS WEEK. DISTRIBUTION WAS AFFECTED BY CURFEWS AND ABSENTEEISM EVEN OF EMPLOYEES WITH CURFEW PASSES DUE ANXIETY OVER PERSONAL SAFETY.

IN RETAIL SECTOR ONLY SMALL GROCERS AND GAS

STATIONS OPERATING NORMALLY, MOST LARGER RETAILERS APPEAR TO BE CLOSED FOR DURATION OF EXTENDED CURFEW.

SINCE MAY 2 BANKS WERE OPEN ONLY SATURDAY MORNING BUT SOME OPENED THIS MORNING DURING CURFEW BREAK.

TOURIST INDUSTRY, WHICH APPARENTLY ONLY SLIGHTLY

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AFFECTED BY APRIL 10 ISRAELI RAID HERE, NOW VIRTUALLY CLOSED DOWN. ONE LARGE HOTEL WHICH SAW OCCUPANCY DROP FROM 90 TO 80 PC AFTER ISRAELI RAID REPORTS 50 PC THIS WEEK. HOTEL MANAGERS EXPECT FURTHER SHARP DROP AS SOON AS AIRPORT REOPENS AND PEOPLE STRANDED HERE ARE ABLE TO LEAVE.

IF CURRENT CALM CONTINUES AND CURFEW BREAK EXTENDED AT LEAST THROUGH BUSINESS HOURS ECONOMIC ACTIVITY SHOULD RETURN TO NEAR NORMAL QUICKLY. CHIEF VICTIMS OF ONE-WEEK LOSS OF OUTPUT WOULD BE LOW- INCOME GROUPS: DAILY- PAID BLUE COLLAR WORKERS, SMALL TRUCK FARMERS AND THOSE DEPENDENT ON TOURIST TRADE.

REOPENING OF THE SYRIAN BORDER WOULD ALSO BE REQUIRED, HOWEVER, FOR A COMPLETE RETURN TO DAY- TO-DAY COMMERCIAL NORMALCY.

2. OUTLOOK

LONG TERM OUTLOOK DIFFICULT TO DEFINE AT THIS STAGE. GREATEST POTENTIAL DANGER WOULD BE LOSS OF CONFIDENCE WHICH COULD HAVE ADVERSE EFFECT ON FURTHER DEVELOPMENT OF ECONOMY. IN THIS CONNECTION IT SHOULD BE RECALLED THAT ALMOST FIVE YEARS WERE REQUIRED FOR THE COUNTRY TO RECOVER FROM THE DOUBLE BLOW OF THE INTRA BANK FAILURE AND THE ISRAELI WAR.

AT BEST, GIVEN MOST FAVORABLE DEVELOPMENTS (COMPLETE CALM, STRONG AND MODERATE GOVT, PROMPT REOPENING SYRIAN BORDER), THERE BOUND TO BE SLOWDOWN , PARTICULARLY OF TOURISM, THIS MONTH AND NEXT UNTIL FULL CONFIDENCE RETURNS. THIS HAS OCCURRED IN PAST AFTER SHORT LIVED DISTURBANCES BUT BUOYANT ECONOMY OF

RECENT YEARS HAS PROVED STRONG ENOUGH QUICKLY REBOUND FROM SUCH SHOCKS AS LAST YEARS ISRAELI INCURSION IN SOUTH AND LOD AIRPORT MASSACRE.

CURRENT SHOCK, HOWEVER, CENTERED IN BEIRUT AND IS OBVIOUSLY MOST SERIOUS SINCE JUNE 1967. AFTER- EFFECTS LIKELY CONTINUE SOME TIME. GIVEN MORE FIGHTING, CONTINUED INSTABILITY AND LOSS OF CONFIDENCE, BALANCE OF PAYMENTS LIKELY SUFFER AS TOURISM AND FOREIGN INVEST-MENT DROP. LEBANESE INVESTMENT IN INDUSTRIAL DEVELOP-MENT AND CONSTRUCTION WOULD PREFORCE GIVE WAY TO DESIRE MAINTAIN ASSETS IN MORE LIQUID FORM. LEBANONS NASCENT ROLE AS A FINANCIAL CENTER, IT WOULD SEEM, WOULD ALSO SUFFER AS WOULD ITS ESTABLISHED ROLE AS

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REGIONAL COMMERCIAL CENTER FOR NUMEROUS FOREIGN FIRMS
(SOME AMERICAN FIRMS REASSESSING FUTURE PROSPECTS HERE).
FINALLY EVEN IN THE IMPORTANT SECTOR OF TRADE, DETERIORA-
TION COULD BE ANTICIPATED BECAUSE OF THE UNCERTAINTY
CONCERNING THE FUTURE.
HOUGHTON

NOTE BY OCT: NOT PASSED CAIRO.

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